

OSCEOLA MUNICIPAL WATERWORKS
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

Year Ended June 30, 2020

TABLE OF CONTENTS

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Financial Statement:	<u>Exhibit</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balance	A	8
Notes to Financial Statement		9-16
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balance - Budget and Actual		18
Notes to Other Information - Budgetary Reporting		19
Schedule of the Waterwork's Proportionate Share of the Net Pension Liability		20
Schedule of Waterworks Contributions		21
Notes to Other Information - Pension Liability		22
Supplementary Information:	<u>Schedule</u>	
Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Enterprise Fund Accounts	1	24-25
Schedule of Indebtedness	2	26
Bond Maturities	3	27
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with <u>Government</u> <u>Auditing Standards</u>		28-29
Schedule of Findings		30-33

OSCEOLA MUNICIPAL WATERWORKS

OFFICIALS

(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Alisha Kale	Chair	December 31, 2019
Larry Bishop	Vice Chair	December 31, 2022
Mark Binning	Trustee	December 31, 2021
Mackenzie O'Hair	Trustee	December 31, 2024
Dr. James Kimball	Trustee	December 31, 2019
Brandon Patterson	Superintendent	Indefinite
Carrie Benda	Office Manager	Indefinite

(After January 2020)

Alisha Kale	Chair	December 31, 2025
Larry Bishop	Vice Chair	December 31, 2022
Mark Binning	Trustee	December 31, 2021
Mackenzie O'Hair*	Trustee	Resigned
Sara O'Hair**	Trustee	December 31, 2024
Dr. James Kimball	Trustee	December 31, 2025
Brandon Patterson	Superintendent	Indefinite
Carrie Benda	Office Manager	Indefinite

* - Resigned in April, 2020.

** - Appointed in May, 2020.

Osceola Municipal Waterworks



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Osceola Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Osceola Municipal Waterworks, Osceola, Iowa (Waterworks), as of and for the year ended June 30, 2020, and the related Notes to Financial Statement, which collectively comprise the Waterworks' financial statement listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waterworks' preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the Waterworks as of June 30, 2020, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Waterworks' financial statement. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information, the Budgetary Comparison Information, the Schedule of the Waterwork's Proportionate Share of the Net Pension Liability and the Schedule of Waterworks Contributions on pages 18 through 22 has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 21, 2021 on our consideration of the Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC

January 21, 2021

Financial Statement

OSCEOLA MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCE

As of and for the year ended June 30, 2020

	Enterprise Fund Water
Operating receipts:	
Charges for service	\$ 1,739,676
Miscellaneous	158,729
Total operating receipts	<u>1,898,405</u>
Operating disbursements:	
Business type activities	<u>1,500,528</u>
Total operating disbursements	<u>1,500,528</u>
Excess of operating receipts over operating disbursements	<u>397,877</u>
Non-operating receipts (disbursements):	
Interest on investments	11,901
Rental income	214,884
Sewer rental and garbage fees collected for City	1,937,167
Sewer rental and garbage fees remitted to City	(1,937,232)
Debt service	(271,562)
Capital outlay	(552,132)
Net non-operating receipts (disbursements)	<u>(596,974)</u>
Change in cash balance	(199,097)
Cash balance beginning of year	<u>1,534,732</u>
Cash balance end of year	<u>\$ 1,335,635</u>
Cash Basis Fund Balance	
Restricted for:	
Debt service	\$ 296,921
Unspent bond proceeds	590,474
Customer deposits	84,400
Total restricted cash basis fund balance	<u>971,795</u>
Unrestricted	<u>363,840</u>
Total cash basis fund balance	<u>\$ 1,335,635</u>

See notes to financial statement.

OSCEOLA MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2020

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Osceola Municipal Waterworks (Waterworks) is a component unit of the City of Osceola, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-member board of trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Fund Balance

Funds set aside for debt service, unspent bond proceeds and customer deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

During the year ended June 30, 2020, disbursements exceeded the amount budgeted.

Note 2. Cash and Pooled Investments

The Waterworks' deposits at June 30, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Note 2. Cash and Pooled Investments (continued)

The Waterworks had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 72.

Interest rate risk – The Waterworks investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Waterworks.

Note 3. Revenue Bonds Payable

A summary of changes in water revenue bonds payable for the year ended June 30, 2020 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Business type activities:					
Water Revenue Bonds	\$ 3,675,000	-	150,000	3,525,000	155,000
Business-type activities total	\$ 3,675,000	-	150,000	3,525,000	155,000

Revenue Bonds Payable

A summary of the Waterworks June 30, 2020 revenue bonds payable is as follows:

Year Ending June 30,	Water Revenue Bonds		Total
	Principal	Interest	Total
2021	\$ 155,000	118,312	273,312
2022	155,000	115,213	270,213
2023	160,000	112,112	272,112
2024	165,000	108,912	273,912
2025	165,000	105,613	270,613
2026-2030	900,000	457,000	1,357,000
2031-2035	1,075,000	282,200	1,357,200
2036-2038	750,000	60,800	810,800
	<u>\$ 3,525,000</u>	<u>1,360,162</u>	<u>4,885,162</u>

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$4,000,000 in water revenue bonds issued in 2017. Proceeds from the bonds provided financing for the construction of water main replacements, acquire equipment, purchase of real estate and the early payoff of an old debt issue. The bonds are payable solely from water customer net receipts and are payable through 2038. Annual principal and interest payments on the bonds are expected to require less than 69% of net receipts. The total principal and interest remaining to be paid on the bonds is \$4,885,162. For the current year, principal and interest paid and total customer net receipts were \$271,312 and \$397,877, respectively.

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.

Note 3. Revenue Bonds Payable (continued)

- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 115% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account (sinking account). Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) A reserve account balance of \$274,313 is required to be maintained in the Enterprise, Water Fund.
- (e) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.
- (f) All users of the system, including the City, shall pay for usage.

During fiscal year 2020 the City is not being charged for water service as required.

Note 4. Operating Lease

The Waterworks has an operating lease for the use of a postage machine. The postage machine lease expires on September 30, 2020. Postage machine lease expense totaled \$443 for the year ended June 30, 2020.

Future minimum lease payments in relation to the postage machine lease is \$111 for the year ended June 30, 2021.

Note 5. Pension Plan

Plan Description - IPERS membership is mandatory for employees of the Waterworks, except for those covered by another retirement system. Employees of the Waterworks are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Note 5. Pension Plan (continued)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Waterworks contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Waterworks' contributions to IPERS for the year ended June 30, 2020 were \$39,073.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020, the Waterworks reported a liability of \$321,781 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Waterworks' proportion of the net pension liability was based on the Waterworks' share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Waterworks' proportion was 0.0055569%, which was a decrease of 0.000202% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Waterworks' pension expense, deferred outflows of resources and deferred inflows of resources totaled \$59,192, \$50,571 and \$63,042, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of Inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25%, average, including inflation. Rates vary by membership group.

Note 5. Pension Plan (continued)

Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0 %	5.60 %
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	100.0 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Waterworks will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the Waterworks' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Waterworks' proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Waterworks' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Waterworks' proportionate share of the net pension liability	\$ 571,380	321,781	112,421

Note 5. Pension Plan (continued)

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Note 6. Other Postemployment Benefits

Plan Description – The City of Osceola (City) operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. The Waterworks' employees are part of the City's insurance policy. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2020, the Waterworks contributed \$93,821 and plan members eligible for benefits contributed \$6,274 to the plan. At June 30, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by the City and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Active employees	<u>7</u>
Total	<u><u>7</u></u>

Note 7. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and compensatory leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and compensatory leave termination payments payable to employees at June 30, 2020 is \$33,201. The liability has been computed based on rates of pay in effect at June 30, 2020.

Note 8. Intrafund Transfers

The detail of intrafund transfers for the year ended June 30, 2020 is as follows:

Transfer to	Transfer from	Amount
Enterprise: General	Enterprise Meter Deposits	<u>\$ 4,313</u>
Enterprise: Sinking	Enterprise: General	<u>1,170,085</u>
Total		<u><u>\$ 1,174,398</u></u>

Transfers generally move resources from the account required to collect the resources to the account statutorily required to disburse the resources.

Note 9. Lease Agreements

The Waterworks has two lease agreements, as follows:

- The Waterworks is leasing antenna space on the water tower to USCOC of Greater Iowa, LLC (tenant). The initial term of the lease began in 2009, with five additional (5) year renewal options. The Waterworks received \$15,914 from this lease in fiscal year 2020. As long as this lease is in effect, after every five years, the base rent for this lease will be increased by 3% per year over the previous year's base rent. Unless the tenant decides to terminate the lease, the Waterworks has to continue to lease the antenna space to the tenant until fiscal year 2040.
- The Clarke County Development Corporation (CCDC) entered into a lease agreement with HGI-Lakeside, LLC and its successors (Casino) for certain real estate surrounding West Lake and the use of the lake in the operation of a casino. Unless the Casino terminates the lease, this lease is automatically renewable by the Casino every five years, with no set expiration date.

As part of this lease, the Waterworks is to receive 0.5% of adjusted gross gambling receipts from the casino. The total amount received by the Waterworks in fiscal year 2020 in relation to this was \$198,970.

Note 10. Contract with Southern Iowa Rural Water Association

The Waterworks and the Southern Iowa Rural Water Association (SIRWA) entered into an agreement whereas the Waterworks will sell a maximum of 470,900 gallons of water per day to SIRWA. The agreement was entered into in 1994, and is for a term of 40 years. Currently the Waterworks sells water to SIRWA at a rate of \$2.36 per thousand gallons.

Note 11. Risk Management

The Waterworks is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 12. Contingencies

The Waterworks participates in federal, state and local grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal, state and local regulations and requirements, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal, state or local audit may become a liability of the Waterworks. The effects of potential revisions or disallowances, if any, is unknown.

The Waterworks is not in compliance with its revenue bond loan agreements as documented in Note 3 above. The potential liability as a result of this noncompliance is unknown.

Note 13. Commitments

The Waterworks has entered into a construction contract for water tower maintenance and painting. The contract amount was for approximately \$395,000. As of June 30, 2020, approximately \$77,000 remains to be paid on this contract. It is anticipated that this project will be completed in fiscal year 2021 and will be paid for with existing cash reserves.

Note 13. Commitments (continued)

The Waterworks has committed \$2,000,000 to build a reservoir to supply water to Clarke County, Iowa. In fiscal year 2018, the Waterworks paid \$221,000 to the Clarke County Reservoir Commission and purchased real estate from the Clarke County Reservoir Commission for \$600,000, for a total of \$821,000, as part of this commitment. As a result, as of June 30, 2020, the Waterworks commitment to this project is \$1,179,000. As of current date, it is uncertain how the Waterworks plans to pay for this commitment.

The Waterworks entered into an agreement with an engineering firm to provide engineering services for a water tower recoating project. The total engineer fee for this agreement is \$87,000. As of June 30, 2020, approximately \$12,000 remains to be paid on this contract. It is anticipated that this project will be completed in fiscal year 2021 and will be paid for with existing cash reserves.

The Waterworks accepted a bid from a vendor in fiscal year 2020 for \$59,400 to clean two lagoons for the Waterworks. It is anticipated that this project will be completed in fiscal year 2021. No amounts have been paid on this project in fiscal year 2020.

The Waterworks has an agreement with a leak detection service. The total amount owed to the leak detection service will be a minimum \$1,800 in fiscal year 2021 and \$1,800 in fiscal year 2022. These contract amounts will be paid after this service is provided.

Note 14. COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the Waterworks, remains uncertain. To date, the outbreak has not created a material disruption to the operations of the Waterworks. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the Waterworks operations and finances.

Note 15. Subsequent Events

The Waterworks has evaluated subsequent events through January 21, 2021, which is the date that the financial statement was available to be issued.

Note 16. Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 87, Leases. This statement will be implemented for the fiscal year ending June 30, 2021. The revised requirements of this statement require reporting of certain potentially significant lease liabilities that are not currently reported.

Other Information

OSCEOLA MUNICIPAL WATERWORKS

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
BUDGET AND ACTUAL

OTHER INFORMATION

Year ended June 30, 2020

	Actual	Less Amounts not Required to be Budgeted	Total	Budgeted Amounts Final	Final to Total Variance
Receipts:					
Use of money and property	\$ 226,785	-	226,785	256,657	(29,872)
Charges for service	3,676,843	1,937,167	1,739,676	1,875,788	(136,112)
Miscellaneous	158,729	-	158,729	116,300	42,429
Total receipts	<u>4,062,357</u>	<u>1,937,167</u>	<u>2,125,190</u>	<u>2,248,745</u>	<u>(123,555)</u>
Disbursements:					
Business type activities	4,261,454	1,937,232	2,324,222	2,150,080	(174,142)
Total disbursements	<u>4,261,454</u>	<u>1,937,232</u>	<u>2,324,222</u>	<u>2,150,080</u>	<u>(174,142)</u>
Excess (deficiency) of receipts over (under) disbursements	(199,097)	(65)	(199,032)	98,665	(297,697)
Other financing sources (net)	-	(18,147)	18,147	-	18,147
Change in fund balances	(199,097)	(18,212)	(180,885)	<u>98,665</u>	<u>(279,550)</u>
Balances beginning of year	<u>1,534,732</u>	<u>18,212</u>	<u>1,516,520</u>		
Balances end of year	<u>\$ 1,335,635</u>	<u>-</u>	<u>1,335,635</u>		

See accompanying independent auditor's report.

OSCEOLA MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2020

The Osceola Municipal Waterworks (Waterworks) prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year there were no budget amendments.

During the year ended June 30, 2020, disbursements exceeded the amount budgeted.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF THE WATERWORK'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST SIX YEARS*
(IN THOUSANDS)

OTHER INFORMATION

	2020	2019	2018	2017	2016	2015
Waterworks' proportion of the net pension liability	0.005557%	0.005759%	0.006088%	0.005904%	0.005517%	0.005487%
Waterworks' proportionate share of the net pension liability	\$ 322	364	406	372	273	218
Waterworks' covered payroll	\$ 423	430	454	424	378	357
Waterworks' proportionate share of the net pension liability as a percentage of its covered payroll	76.12%	84.65%	89.42%	87.74%	72.22%	61.06%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF WATERWORKS CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST SEVEN YEARS
(IN THOUSANDS)

OTHER INFORMATION

	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 39	40	38	41	38	34	32
Contributions in relation to the statutorily required contribution	(39)	(40)	(38)	(41)	(38)	(34)	(32)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-
Waterworks' covered payroll	\$ 417	423	430	454	424	378	357
Contributions as a percentage of covered payroll	9.44%	9.44%	8.93%	8.93%	8.93%	8.93%	8.93%

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Waterworks will present information for those years for which information is available.

OSCEOLA MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – PENSION LIABILITY

Year ended June 30, 2020

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

Supplementary Information

OSCEOLA MUNICIPAL WATERWORKS

Schedule I

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2020

	General	Sinking	Reserve	Meter Deposits	Casino	Total
Operating receipts:						
Charges for service:						
Sale of water and late penalty	\$1,709,347	-	-	-	-	1,709,347
Other charges for service	11,129	-	-	-	-	11,129
Collection fee from City	19,200	-	-	-	-	19,200
	<u>1,739,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,739,676</u>
Miscellaneous:						
Sales/WET tax	60,272	-	-	-	-	60,272
Customer deposits	-	-	-	30,450	-	30,450
Miscellaneous	68,007	-	-	-	-	68,007
	<u>128,279</u>	<u>-</u>	<u>-</u>	<u>30,450</u>	<u>-</u>	<u>158,729</u>
Total operating receipts	<u>1,867,955</u>	<u>-</u>	<u>-</u>	<u>30,450</u>	<u>-</u>	<u>1,898,405</u>
Operating disbursements:						
Business type activities:						
Salaries	417,092	-	-	-	-	417,092
Payroll taxes	70,629	-	-	-	-	70,629
Employee insurance	100,951	-	-	-	-	100,951
Unemployment	12,917	-	-	-	-	12,917
Clothing allowance	1,202	-	-	-	-	1,202
Dues	1,605	-	-	-	-	1,605
Employee training	1,381	-	-	-	-	1,381
Building repair	55,626	-	-	-	-	55,626
Water tower	3,630	-	-	-	-	3,630
Vehicle expense	11,560	-	-	-	-	11,560
Utilities	121,530	-	-	-	-	121,530
Telephone	10,986	-	-	-	-	10,986
Main repairs	33,298	-	-	-	-	33,298
Customer service line repair	5,792	-	-	-	-	5,792
Meter pit, service connection repair	3,277	-	-	-	-	3,277
Professional fees	6,460	-	-	-	-	6,460
Advertsing	4,117	-	-	-	-	4,117
Collection fees	256	-	-	-	-	256
Insurance	44,532	-	-	-	-	44,532
Reservior Commission membership	14,301	-	-	-	-	14,301
Lab test and supplies	11,611	-	-	-	-	11,611
Sales/WET tax	60,088	-	-	-	-	60,088
Permit and banking fees	5,206	-	-	-	-	5,206
Hydrant refunds	5,200	-	-	-	-	5,200
Valve, fire hydrant repair	1,342	-	-	-	-	1,342
Leak survey	4,100	-	-	-	-	4,100
Deposit refunds	1,550	-	-	24,364	-	25,914
Chemicals	406,640	-	-	-	-	406,640
Minor tools and equipment	4,143	-	-	-	-	4,143
Water meters	25,267	-	-	-	-	25,267
Office supplies	17,168	-	-	-	-	17,168
Postage	9,539	-	-	-	-	9,539
GIS, mapping	2,400	-	-	-	-	2,400
Safety equipment and supplies	768	-	-	-	-	768
Total operating disubrsements	<u>1,476,164</u>	<u>-</u>	<u>-</u>	<u>24,364</u>	<u>-</u>	<u>1,500,528</u>

OSCEOLA MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2020

	General	Sinking	Reserve	Meter Deposits	Casino	Total
Excess of operating receipts over operating disbursements	\$ 391,791	-	-	6,086	-	397,877
Non-operating receipts (disbursements):						
Interest on investments	10,669	-	1,232	-	-	11,901
Rental income	15,914	-	-	-	198,970	214,884
Sewer rental and garbage fees collected for City	1,937,167	-	-	-	-	1,937,167
Sewer rental and garbage fees remitted to City	(1,937,232)	-	-	-	-	(1,937,232)
Debt service:						
Principal redemption	-	(150,000)	-	-	-	(150,000)
Interest paid	-	(121,312)	-	-	-	(121,312)
Service fees	-	(250)	-	-	-	(250)
Capital outlay	-	-	-	-	(552,132)	(552,132)
Total non-operating receipts (disbursements)	26,518	(271,562)	1,232	-	(353,162)	(596,974)
Excess (deficiency) of receipts over (under) disbursements	418,309	(271,562)	1,232	6,086	(353,162)	(199,097)
Transfers in (out)	(1,165,772)	1,170,085	-	(4,313)	-	-
Net change in cash balances	(747,463)	898,523	1,232	1,773	(353,162)	(199,097)
Cash balances beginning of year	1,042,175	(601,602)	324,888	82,627	686,644	1,534,732
Cash balances end of year	\$ 294,712	296,921	326,120	84,400	333,482	1,335,635

See accompanying independent auditor's report.

OSCEOLA MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2020

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Improvement and Refunding Bonds	12-01-17	2.00-4.00%	4,000,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
12-01-17	3,675,000	-	150,000	3,525,000	121,312	-
	\$ 3,675,000	-	150,000	3,525,000	121,312	-

See accompanying independent auditor's report.

OSCEOLA MUNICIPAL WATERWORKS

Schedule 3

BOND MATURITIES

June 30, 2020

Year Ending June 30,	Water Revenue Improvement and Refunding Bonds Issued December 1, 2017	
	Interest Rates	Amount
2021	2.00%	\$ 155,000
2022	2.00%	155,000
2023	2.00%	160,000
2024	2.00%	165,000
2025	2.25%	165,000
2026	3.00%	170,000
2027	3.00%	175,000
2028	3.00%	180,000
2029	3.00%	185,000
2030	4.00%	190,000
2031	4.00%	200,000
2032	4.00%	205,000
2033	4.00%	215,000
2034	4.00%	225,000
2035	4.00%	230,000
2036	4.00%	240,000
2037	4.00%	250,000
2038	4.00%	260,000
		<u>\$ 3,525,000</u>

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the
Osceola Municipal Waterworks:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the Osceola Municipal Waterworks, Osceola, Iowa (Waterworks), as of and for the year ended June 30, 2020, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement, and have issued our report thereon dated January 21, 2021. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Waterworks' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Waterworks' financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items I-A-20 and I-B-20 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item I-C-20 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Waterworks Responses to the Findings

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC

January 21, 2021

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

I-A-20 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Osceola Municipal Waterworks (Waterworks) financial statement.

Condition – Generally, one or two individuals in the Waterworks has control over cash receipts listings, bank deposits and posting cash receipts to the cash receipts journal.

Cause – The Waterworks has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Waterworks ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Waterworks should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

Response – We will evaluate this and attempt to segregate duties as much as possible.

Conclusion – Response acknowledged.

I-B-20 Preparation of Financial Statements

Criteria - A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity.

Condition - As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause - We recognize that with a limited number of office employees, preparation of the financial statements and accompanying notes to the financial statements is difficult.

Effect - The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Waterworks. The outside party does not have the constant contact with ongoing financial transactions.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Recommendation - We recommend that Waterworks officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances to enable staff to draft the financial statements and accompanying notes to the financial statements internally.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with an other comprehensive basis of accounting.

Conclusion – Response acknowledged.

I-C-20 Meter Deposits

Criteria - An effective internal control system provides for internal controls related to the Waterworks maintaining a complete list of meter deposits on hand, by customer.

Condition – The dollar amount of meter deposits on hand, by customer, is understated. The Waterworks does not maintain a listing of meter deposits on hand for those customers who paid in meter deposits prior to July 1, 2013.

Cause – Policies and procedures have not been implemented to ensure the dollar amount of meter deposits on hand are identified and accounted for properly.

Effect – This condition could result in unrecorded, misstated, improper or unauthorized adjustments to the meter deposit amounts.

Recommendation – The Waterworks should implement procedures to ensure the dollar amount of meter deposits on hand, by customer include all customers who have meter deposits with the Waterworks.

Response – Osceola Water Works created a process to account for deposits made from July 1, 2013 forward. For customer deposits that were collected prior to July 1, 2013 we could not ensure accountability. Osceola Water Works set up a separate fund for the customer meter deposits and refunds from July 1, 2013 forward. The customer meter deposit refunds prior to July 1, 2013 will continue to be tracked by a separate line item. As part of the balancing process, Osceola Water Works will balance the customer deposit spreadsheet against the 602 fund to ensure we are in balance.

Conclusion – Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Other Findings Related to Required Statutory Reporting:

II-A-20 Certified Budget – Disbursements at June 30, 2020 exceeded the amount budgeted in the business-type activities function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if required.

Conclusion – Response acknowledged,

II-B-20 Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

II-C-20 Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Osceola Municipal Waterworks (Waterworks) officials or employees were noted.

II-D-20 Business Transactions – No business transactions between the Waterworks and Waterworks officials or employees were noted.

II-E-20 Restricted Donor Activity – No transactions were noted between the Waterworks, Waterworks officials, Waterworks employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

II-F-20 Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-G-20 Board of Trustee Minutes – No transactions were found that we believe should have been approved in the trustee minutes but were not.

II-H-20 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted.

II-I-20 Revenue Bonds – No instances of non-compliance with the water revenue bond requirements were noted, except the Waterworks bond resolutions require all users of the system, including the City, be charged for usage. The City is currently not being charged for water usage.

Recommendation – The Waterworks should ensure City water usage is billed and paid by the City as required by the bond provisions.

Response – Discussions will be held regarding the charge of usage for city accounts.

Conclusion – Response acknowledged.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2020

- II-J-20 Utility Rates - Chapter 388.6 of the Code of Iowa states that a utility may not provide use or services at a discriminatory rate, except to the City or its agencies. However, we noted that the Waterworks was providing reduced rate water service to another government who buys water for resale to its customers. This would appear to violate Chapter 388.6 of the Code of Iowa.

Recommendation – The Waterworks should ensure compliance with Chapter 388.6 of the Code of Iowa in relation to not providing utility use or service at discriminatory rates.

Response – Osceola Water Works does not wish to provide water service at a discriminatory rate. After discussions with legal counsel, Osceola Water Works may not discriminate within a class and would be required to provide the same reduction to similarly situated entities. If the Water Board of Trustees wishes to continue providing the rate reduction, they will create a written policy.

Conclusion – Response acknowledged.

- II-K-20 Sales Tax – We identified two instances in which the Waterworks paid sales taxes to the State of Iowa for purchases of materials. As a government entity, the Waterworks is exempt from paying sales taxes to the State of Iowa for purchases of materials.

Recommendation – The Waterworks should implement procedures to ensure sales taxes are not paid to the State of Iowa for purchases of materials.

Response – We will implement this recommendation, as these sales tax charges paid were an oversight on our part.

Conclusion – Response acknowledged.